

NORTHEAST TENNESSEE RAILROAD AUTHORITY

**FINANCIAL STATEMENTS
WITH
SUPPLEMENTAL FINANCIAL INFORMATION**

JUNE 30, 2008

NORTHEAST TENNESSEE RAILROAD AUTHORITY

TABLE OF CONTENTS

JUNE 30, 2008

	PAGES
Independent Auditor's Report.....	1
Management's Discussion and Analysis	2-4
FINANCIAL SECTION	
Statement of Net Assets	5
Statement of Revenues, Expenses and Changes in Net Assets	6
Statement of Cash Flows	7
Notes to Financial Statements	8-9
INTERNAL CONTROL AND COMPLIANCE AND OTHER MATTERS	
Independent Auditor's Report on Internal Control Over Financial Reporting and On Compliance and Other Matters	10-11

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Northeast Tennessee Railroad Authority
Oak Ridge, Tennessee

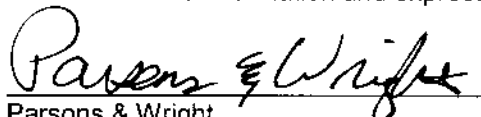
We have audited the accompanying statement of net assets of Northeast Tennessee Railroad Authority as of June 30, 2008, and the related statements of revenue, expenses and changes in net assets and cash flows for the period from inception, June 9, 2005, to June 30, 2008. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Tennessee Railroad Authority as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 19, 2009, on our consideration of Northeast Tennessee Railroad Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 4 is not a required part of the financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Parsons & Wright
Certified Public Accountants
Kingston, Tennessee

January 19, 2009

**NORTHEAST TENNESSEE RAILROAD
AUTHORITY**

FINANCIAL SECTION

JUNE 30, 2008

NORTHEAST TENNESSEE RAILROAD AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a narrative overview and analysis of the Authority's financial performance for the year ended June 30, 2008. This section is only an introduction and should be read in conjunction with the Authority's financial statements, which immediately follow this section.

The following management discussion and analysis (MD&A) provides a comprehensive overview of the financial position of Northeast Tennessee Railroad Authority as of June 30, 2008, and its results of operations for the period from inception, June 9, 2005, to June 30, 2008. Management has prepared the MD&A.

USING THE FINANCIAL REPORT

This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.

The financial statements prescribed by GASB Statement No. 34 (the Statement of Net Assets, Statement of Revenue, Expenses, and Changes in Net Assets, and the Statement of Cash Flows) present financial information in a form similar to that used by corporations. As such, they are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The *Statement of Net Assets* includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) are an indicator of the improvement or erosion of the Authority's overall financial health when considered with non-financial facts.

The *Statement of Revenue, Expenses, and Changes in Net Assets* presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. The utilization of capital assets is reflected in the financial statements as depreciation, amortizing the cost of the capital asset over its expected useful life.

The *Statement of Cash Flows* presents information related to cash inflows and outflows summarized by operating, non-capital financing, capital financing and related investing activities, and helps measure the ability of the Authority to meet financial obligations as they mature.

Financial Highlights

Following are the financial highlights of the Authority for the period from inception, June 9, 2005, to June 30, 2008:

- Expended grant funds totaling \$557,246 on improvements to the rail line.
- Incurred depreciation expense of \$2,322 on improvements to the rail line.
- Incurred maintenance/rehabilitation expense of \$59,386 on the rail line.

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of three components: 1) financial statements 2) accounting policies and 3) notes to the financial statements.

The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the Authority is improving or deteriorating.

Condensed Statement of Net Assets

Current Assets	\$ 25,993
Capital Assets	554,924
Total Assets	<u>\$ 580,917</u>
Current Liabilities	<u>\$ 30,632</u>
Total Liabilities	<u>\$ 30,632</u>
Net Assets:	
Invested in Capital Assets	\$ 554,924
Unrestricted Net Assets	<u>(4,639.00)</u>
Total Net Assets	<u>\$ 550,285</u>

The statement of revenue, expenses and changes in net assets shows the business type activity of the Authority and provides information regarding income and expenses that affect net assets.

Condensed Statement of Revenue, Expenses and Change in Net Assets

Grant Revenue	\$ 611,812
Interest Income	291
Other	<u>21</u>
Total Revenues	<u>612,124</u>
Administrative and General	59,517
Depreciation	<u>2,322</u>
Total Expenses	<u>61,839</u>
Change in Net Assets	<u>\$ 550,285</u>

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The summary of accounting policies and notes to the financial statements provide additional information that is essential to a full and complete understanding of the information provided in the financial statements.

Economic Factors That Will Affect the Future

The Authority remains committed to rehabilitating and preserving rail service for Anderson, Campbell, and Scott counties. Its ability to successfully accomplish this is at least in part based upon the economic outlook for Anderson, Campbell, and Scott counties as well as upon its ability to continue to attract funding for future improvements.

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2008**

ASSETS

CURRENT ASSETS	
Cash	\$ 17,558
Grants Receivable	8,435
Total Current Assets	<u>\$ 25,993</u>
PROPERTY AND EQUIPMENT	
Property Improvements	\$ 557,246
Less: Accumulated Depreciation	<u>(2,322)</u>
Net Property and Equipment	<u>554,924</u>
TOTAL ASSETS	<u><u>\$ 580,917</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts Payable	\$ 22,197
Deferred Revenue	8,435
TOTAL LIABILITIES	<u>\$ 30,632</u>
NET ASSETS	
Invested in Capital Assets	\$ 554,924
Unrestricted	<u>(4,639)</u>
TOTAL NET ASSETS	<u>550,285</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 580,917</u></u>

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE PERIOD FROM INCEPTION, JUNE 9, 2005, TO JUNE 30, 2008**

REVENUE

Grant Revenue	\$ 611,812
Interest Income	291
Other	<u>21</u>
<i>Total Unrestricted Public Support, Gains and Revenue</i>	<u>\$ 612,124</u>

TOTAL SUPPORT, GAINS AND REVENUE

\$ 612,124

EXPENSES

Maintenance/Rehabilitation	\$ 59,386
Depreciation	2,322
Bank Charges	96
Other	<u>35</u>

TOTAL EXPENSES

\$ 61,839

CHANGE IN NET ASSETS

\$ 550,285

NET ASSETS, BEGINNING OF YEAR

0

NET ASSETS, END OF YEAR

\$ 550,285

NORTHEAST TENNESSEE RAILROAD AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM INCEPTION, JUNE 9, 2005, TO JUNE 30, 2008

CASH FLOW FROM OPERATING ACTIVITIES

Receipts from Grantors	\$ 611,812
Payments to Suppliers	(37,189)
Interest Received	291
Other Payments	(110)
	<u>574,804</u>

Net Cash Provided by Operating Activities

\$ 574,804

CASH FLOWS FROM INVESTING ACTIVITIES

Capital Expenditures	\$ (557,246)
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Net Cash Provided (Used) by Investing Activities

\$ (557,246)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

\$ 17,558

BEGINNING CASH BALANCES

0

ENDING CASH BALANCES

\$ 17,558

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 550,285
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Adjustments to Reconcile Operating Income to

Net Cash Provided by Operating Activities:

Depreciation and Amortization	2,322
(Increase) Decrease in Net Accounts Receivable	(8,435)
Increase (Decrease) in Accounts Payable	22,197
Increase (Decrease) in Deferred Revenue	8,435
	<u>574,804</u>

Net Cash Provided (Used) by Operating Activities

\$ 574,804

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD FROM INCEPTION, JUNE 9, 2005, TO JUNE 30, 2008**

NOTE A – SUMMARY OF ACCOUNTING POLICIES

1. The Reporting Entity

Northeast Tennessee Railroad Authority was incorporated in June 2005 as a public authority created by the Tennessee State Legislature. The purpose of the Authority is to preserve and enhance the railroad system serving Anderson, Campbell, and Scott counties in Tennessee, so as to secure economic benefits for these counties. The Authority is governed by a board of directors, which includes the mayor for each of the three counties served by the Authority.

2. Basis of Accounting

The accounts have been maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

3. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

4. Property and Depreciation

The Authority follows a policy of capitalizing all significant fixed asset purchases at cost. These assets are depreciated by the straight-line method over their estimated useful lives. Property and improvements for the Authority consists of the following:

	<u>Useful Life</u>	<u>Initial Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2008 Balance</u>
Improvements to Track	40 Years	\$ 0	\$ 4,400	\$ 0	\$ 4,400
Improvements to Bridge	40 Years	0	552,846	0	552,846
Accumulated Depreciation		0	(2,322)	0	(2,322)
Net Property and Improvements		<u>\$ -</u>	<u>\$ 554,924</u>	<u>\$ -</u>	<u>\$ 554,924</u>

5. Statement of Cash Flows

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At various times throughout the year balances exceed federally insured amounts. There were no income taxes paid during the year ended June 30, 2008 by the Authority.

6. Income Tax Status

The Internal Revenue Service has classified the Authority as exempt from Federal Income taxes under Section 501(a) of the United States Internal Revenue Code.

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD FROM INCEPTION, JUNE 9, 2005, TO JUNE 30, 2008**

NOTE B – GRANTS AND CONTRACTS

The Authority has received approximately \$588,500 in grant commitments for rail line improvements to be made through June 2011. The ability of the Authority to receive these grant funds is conditional on its expenditure of these funds for the purposes set forth in the grant agreement. Because of this, revenue is not recognized until the funds have been expended.

Substantially all grants and contracts are subject to financial and compliance audits by the grantor agencies. Disallowance, if any, as a result of these audits may become liabilities of the Authority. Management believes that no disallowance will result from audits by grantor agencies.

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
INTERNAL CONTROL AND
COMPLIANCE AND OTHER MATTERS
SECTION**

JUNE 30, 2008

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Northeast Tennessee Railroad Authority

We have audited the financial statements of Northeast Tennessee Railroad Authority as of June 30, 2008 and for the period from inception, June 9, 2005, to June 30, 2008, and have issued our report thereon dated January 19, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Northeast Tennessee Railroad Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northeast Tennessee Railroad Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the authority's financial statements that is more than inconsequential will not be prevented or detected by the authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the authority's internal control.

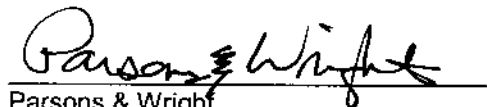
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Tennessee Railroad Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not

express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the entity, the Board of Directors, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Parsons & Wright", is written over a horizontal line.

Parsons & Wright
Certified Public Accountants
Kingston, Tennessee

January 19, 2009